

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Traders Insurance Company as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Traders Insurance Company for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Traders Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this October 22, 2009.

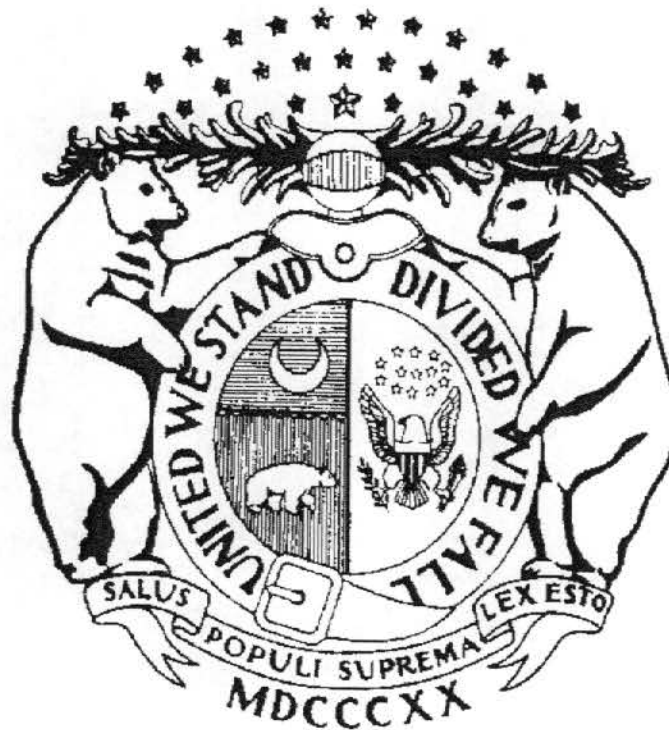


John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
TRADERS INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

FILED
NOV 02 2009
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	2
PERIOD COVERED	2
PROCEDURES	2
SUMMARY OF SIGNIFICANT FINDINGS	3
SUBSEQUENT EVENTS	3
HISTORY	3
GENERAL	3
CAPITAL STOCK AND CONTRIBUTIONS	4
DIVIDENDS	4
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS	4
CORPORATE RECORD	5
MANAGEMENT AND CONTROL	5
BOARD OF DIRECTORS	5
COMMITTEES	6
OFFICERS	6
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	7
ORGANIZATIONAL CHART	8
INTERCOMPANY TRANSACTIONS	8
FIDELITY BOND AND OTHER INSURANCE	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	11
INSURANCE PRODUCTS AND RELATED PRACTICES	12
TERRITORY AND PLAN OF OPERATION	12
COMPANY GROWTH	12
LOSS EXPERIENCE	12

REINSURANCE.....	13
GENERAL.....	13
ASSUMED	13
CEDED	13
STATUTORY DEPOSITS	14
DEPOSITS WITH THE STATE OF MISSOURI.....	14
DEPOSITS WITH OTHER STATES.....	14
ACCOUNTS AND RECORDS	15
INDEPENDENT AUDITOR.....	15
APPOINTED ACTUARY	15
FINANCIAL STATEMENTS	15
ASSETS.....	16
LIABILITIES, SURPLUS AND OTHER FUNDS.....	17
SUMMARY OF OPERATIONS	18
CAPITAL AND SURPLUS ACCOUNT	19
CHANGES IN FINANCIAL STATEMENTS RESULTING FROM EXAMINATION.....	19
COMMENTS ON FINANCIAL STATEMENTS	19
SUMMARY OF RECOMMENDATIONS	19
ACKNOWLEDGMENT.....	20
VERIFICATION.....	20
SUPERVISION.....	21

Kansas City, Missouri
July 24, 2009

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee

Honorable Merle D. Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Traders Insurance Company

hereinafter referred to as such, as Traders, or as the Company. Its administrative office is located at 8916 Troost, Kansas City, Missouri 64131, telephone number (816) 822-1887. This examination began on March 9, 2009, fieldwork was completed on May 21, 2009 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Traders Insurance Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2006, through December 31, 2008, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that the DIFP plan and perform the examination to evaluate the financial condition and identify prospective risks of Traders by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks.

This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities included: Affiliated Parties, Premiums and Underwriting, Investments, Claims and Reserving and Surplus.

The examiners relied upon information supplied by the Company's independent auditor, Johnson Lambert & Co. LLP, of Charleston, South Carolina for its audit covering the period from January 1, 2008, through December 31, 2008. Information relied upon included narrative descriptions of processes and controls with respect to premium accounts, investments accounts, paid losses and loss reserving, attorney letters, and documentation of review of fraud policies and programs, etc.

SUMMARY OF SIGNIFICANT FINDINGS

Three members of the Board of Directors resigned or were not re-elected effective April 9, 2009, during the annual meeting of the Board of Directors and have not been replaced. This development has reduced the number of directors on the Board to six, which is below the statutory minimum of nine directors as required by Section 379.520 (5), RSMo (Contents of articles of incorporation). The Company is directed to appoint additional members to its Board of Directors to comply with this applicable law.

SUBSEQUENT EVENTS

Subsequent to the examination date, on March 24, 2009, Traders General Agency, Inc (TGA) repurchased 250 shares of its outstanding common stock owned by Timothy J. and Raeann M. Hatfield. This treasury stock transaction changed the identity and ownership interest of the remaining shareholders of TGA as follows: Mark C. & Lorie I. Concannon, 52.7%; Patrick J. & Tracey Concannon, 26.7%; Barbara J. Concannon Revocable Trust, 17%; and Bernard P. Concannon, Jr. Irrevocable Trust (Barbara Concannon trustee), 3.6%. The treasury stock was pledged to a note payable from TGA to the Hatfield's. Traders stock is not involved and is not pledged to this note.

By virtue of the percentage ownership interest in TGA, Mark C. & Lorie I. Concannon are effectively the ultimately controlling person of TGA and Traders. However, the remaining owners of TGA determined that Mark C. & Lorie I. Concannon, as the majority shareholder, would not exert a controlling interest but instead the shares held by the owners would be voted equally (one vote each for the three controlling individuals) under a Shareholder Voting Agreement executed by the parties. The applicable Form A exemption was filed with the DIFP, and the exemption was approved on March 5, 2009. Consequently, no one shareholder person or entity is deemed to be the ultimate controlling person of Traders or TGA.

HISTORY

General

Traders Insurance Company was incorporated on March 31, 1980, as a stock casualty insurance company, and was granted authority pursuant to the provisions of Missouri Law at Chapter 379 (Insurance other than life), to commence the business of insurance effective July 7, 1982. Traders is wholly owned by Traders General Agency, Inc. (TGA), a Missouri corporation.

Capital Stock and Contributions

As of December 31, 2008, the Company had authority to issue 1,000,000 shares of \$1.15 par value common stock, 40,000 shares of \$10.00 par value non-voting preferred stock and 250,000 shares of \$1.00 par value voting preferred stock. Only 700,000 of the authorized common shares and 40,000 non-voting preferred shares were issued and outstanding, resulting in a capital account balance of \$1,205,000 at December 31, 2008. All the issued and outstanding shares of the Company is wholly owned by Traders General Agency, Inc. See additional details concerning the ownership of the Company in the Management and Control section of this report.

Dividends

No dividends were declared or paid during the period under examination. However, the Company received approval from the DIFP on June 1, 2006, to pay a \$225,000 extraordinary distribution to its then parent, Traders Insurance Connection, Inc. The amount was considered an extraordinary distribution because of the negative unassigned funds surplus account of the Company. The transaction was completed on June 8, 2006, and was accounted for by a reduction in the gross paid in and contributed surplus of the Company.

Acquisitions, Mergers and Major Corporate Events

On March 30, 2007, Delta Plus Holdings, Inc. (Delta Plus) and its subsidiary holding company, Traders Insurance Connection, Inc. (TICI), comprising Traders and another affiliate, were acquired by Brooke Corporation (Brooke). As part of the consideration for the purchase, Brooke provided an Amended and Restated Promissory Note of \$6.5 Million payable to the shareholders of Delta Plus. The Promissory Note was secured by the acquired stocks of Traders and the stock and assets of its affiliate, Professional Claims, Inc., TICI and Delta Plus.

On September 19, 2008, Brooke defaulted on the Promissory Note and a Special Master was appointed by the controlling regulatory authority to manage its affairs. In light of this development, the prior shareholders of Delta Plus asserted the right of reversal and consequently regained all the rights, title, and interest in all assets and property as well as products and proceeds of TICI pursuant to a Voluntary Surrender Agreement dated October 14, 2008 in partial satisfaction of the Promissory Note.

Traders General Agency, Inc. (TGA) was formed during 2008 by the prior shareholders of Delta Plus and commenced business as an insurance holding company on October 16, 2008. Immediately after its formation, TGA's shareholders transferred all their rights under the Brooke promissory note noted above and certain other agreements with Brooke and TICI to TGA. The transferred agreement included a Voluntary Surrender Agreement whereby TICI agreed to transfer to TGA certain assets in partial satisfaction of the outstanding balance under the promissory note. On October 16, 2008, TGA exercised its rights under the Voluntary Surrender Agreement by taking title to all of TICI's assets, including 100% of the common stock of Traders and Professional Claims, Inc. These transactions were approved by the Director of the DIFP on October 30, 2008.

As of December 31, 2008, Traders was a wholly owned subsidiary of TGA, which in turn was collectively owned by a group of individual investors, who in combination constitute the ultimately controlling person of Traders without any remainder or minority interest by Brooke. See the Management and Control section of this report for more details.

CORPORATE RECORD

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation during the period under examination.

On April 3, 2006, Article III, Section 3 of the Bylaws was amended, pursuant to an action of the sole shareholder, to change the term of each director elected to one year or until his/her successor has been elected and qualified to hold the office.

The minutes of the Board of Directors' meetings, special meetings and sole shareholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

Oversight of the Company is vested in a Board of Directors elected by the sole shareholder. Pursuant to the Company's Bylaws, the number of directors shall be no fewer than nine and no more than fifteen. Ten directors were elected and serving at the last annual meeting in April 2008. As of December 31, 2008, there were nine directors serving due to the resignation of one board member on October 30, 2008. The directors of Traders Insurance Company elected and serving as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Barbara J. Concannon Kansas City, MO	Vice President, Treasurer & Assistant Secretary Traders Insurance Company
Mark C. Concannon Kansas City, MO	President and CEO Traders Insurance Company
Patrick J. Concannon Kansas City, MO	Executive Vice President & COO Traders Insurance Company

Michael F. Concannon Eldon, MO	President Michael F. Concannon, Inc. (Insurance Agency)
D. Clifford Daniels Kansas City, MO	Senior Vice President Davidson-Babcock, former affiliate of Brooke Corporation
William A. Dial, Jr. Atlanta, GA	President Peachtree Casualty Insurance Company
Timothy J. Hatfield* Clearwater, FL	Insurance Consultant
David W. Slavik* Plymouth, MN	Senior Vice President US Bank N.A. Business Credit Division.
William J. Tyer* Kansas City, MO	Vice President Davidson-Babcock, former affiliate of Brooke Corporation

*These three directors resigned or were not re-elected effective April 9, 2009, during the annual meeting of the Board of Directors and have not been replaced. This development has reduced the number of directors on the Board to six, which is below the statutory minimum of nine directors as required by Section 379.520 (5), RSMo (Contents of articles of incorporation). The Company is directed to appoint additional members to its Board of Directors to comply with this applicable law.

Committees

The Company's Bylaws provide for the Board of Directors to have exclusive power and authority to manage the affairs of the Company, but also have the power to delegate specific functions to designated committees. The Board did not create or have any active committees in place during the period under examination.

Officers

Pursuant to the Company's Bylaws, the officers of the Company shall be a President, one or more Vice Presidents, a Secretary and such other officers as may be elected or appointed by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2008, were as follows:

Mark C. Concannon	President and Chief Executive Officer
Barbara J. Concannon	Vice President, Treasurer & Assistant Secretary
Patrick J. Concannon	Executive Vice President, Chief Operating Officer, General Counsel & Secretary
Andrew D. Jamieson	Vice President - Claims
Timothy J. Schulte	Vice President - Information Technologies

Holding Company, Subsidiaries and Affiliates

Traders Insurance Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). Insurance Holding Company Registration Statements were filed by the Company on behalf of itself during each of the years under examination.

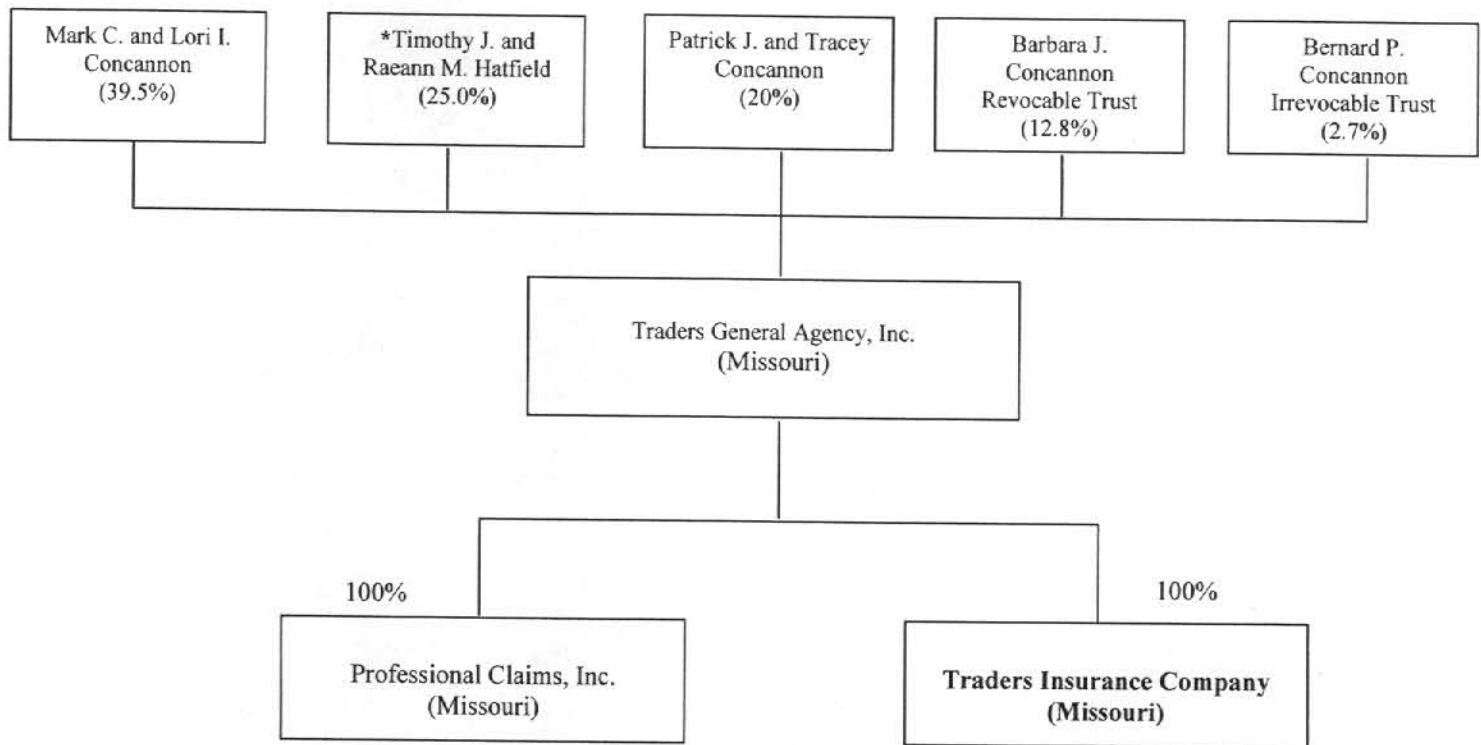
Traders is one hundred percent (100%) owned by Traders General Agency, Inc. (TGA), a Missouri corporation. TGA is a subsidiary holding company and as of December 31, 2008, was owned in total by the following individuals and entities: Mark C. and Lori I. Concannon, 39.5%; Timothy J. and Raeann M. Hatfield, 25%; Patrick J. and Tracey Concannon, 20%; Barbara J. Concannon Revocable Trust, 12.8% and Bernard P. Concannon Irrevocable Trust, 2.7%.

Subsequent to the examination date, on March 24, 2009, TGA redeemed 250 shares owned by Timothy J. and Raeann M. Hatfield. This treasury stock transaction changed the identity and ownership interest of the remaining shareholders of TGA as follows: Mark C. & Lorie I. Concannon, 52.7%; Patrick J. & Tracey Concannon, 26.7%; Barbara J. Concannon Revocable Trust, 17%; and Bernard P. Concannon, Jr. Irrevocable Trust (Barbara Concannon trustee), 3.6%. The treasury stock was pledged to a note payable from TGA to the Hatfield's. Traders stock is not involved and is not pledged to this note.

By virtue of the percentage ownership interest in TGA, Mark C. & Lorie I. Concannon are effectively the ultimately controlling person of TGA and Traders. However, the remaining owners of TGA determined that Mark C. & Lorie I. Concannon, as the majority shareholder, would not exert a controlling interest but instead the shares held by the owners would be voted equally under a Shareholder Voting Agreement executed by the parties. The applicable Form A exemption was filed with the DIFP, and the exemption was approved on March 5, 2009. Consequently, no one shareholder person or entity is deemed the ultimate controlling person of Traders or TGA.

Organizational Chart

The following organizational chart depicts the holding company system, including Traders as of December 31, 2008:



*Note: The identity of the shareholders of TGA changed subsequent to December 31, 2008 as detailed above and in the Subsequent Events section of this report.

Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

1. Type: Management Agreement
- Affiliate: Currently Traders General Agency, Inc. (TGA), previously TICI
- Effective: September 16, 2008
Revised by 15th Amendment as of October 16, 2008
- Terms: TICI, as Manager, provides various marketing, underwriting and processing services to Traders for certain lines of insurance products sold in the states in which TICI has been authorized to represent the Company. Monies collected by TICI are to be deposited in a premium trust account in the name of Traders Insurance Company. Traders shall receive interest

earned on the funds held in the premium trust account. For its services, TICI receives commission rates based on premium written on specific lines of business or class of business as noted in the agreement. The commission rate for automobile coverages is 22.5% for all states and 27.5% on residential and mobile home coverages for all states except Oklahoma. Traders also reimburse TICI 95% for expense constants, premium billing fees and safety responsibility fees associated with policies serviced by TICI. The 2008 revision served two purposes: to transfer the rights of the Agreement from TICI to TGA; and established settlement within 60 days of amounts due.

2. Type: Lease (Sub-Lease) Agreement
Affiliate: Currently TGA, previously TICI
Effective: January 1, 2003.
Revised by "First Amendment" October 16, 2008
Terms: Traders agrees to sublease office space for its home office from TICI. The rent due to TICI is \$4,875 per month and is based on the lease costs to TICI and the amount of space utilized by Traders. The agreement automatically renews each year unless terminated. The 2008 First Amendment was done to reflect TGA as the new tenant.
3. Type: Tax Sharing Agreement
Affiliates: TGA, and Professional Claims Inc., (PCI)
Effective: October 16, 2008
Terms: The agreement requires all member companies to file a consolidated tax return. Tax liabilities of the group are allocated among member companies on a proportional percentage of the total tax had the returns been completed separately. The tax liability for any member shall not exceed that member's tax liability if such member were filing a separate stand alone return. If any member must pay an excess amount, it will be allocated back to those members to whom it is attributable.
4. Type: Expense Sharing Agreement
Affiliates: TGA and Professional Claims, Inc. (PCI)
Effective: April 1, 2001
Revised by "First Amendment" October 16, 2008

- Terms: This agreement was entered into by the parties to gain efficiencies in the operations of Traders and its affiliates by combining purchasing power and sharing resources. Expenses are allocated amongst the parties in accordance with Exhibit A attached to the agreement. There is to be an accounting of the transactions covered by the agreement not less than quarterly. Any party owing money as of the accounting date shall pay a balance due from that party to any other party with a credit balance. The 2008 revision served two purposes: transferred the rights of the agreement from TICI to TGA; and removed Express Auto Insurance Agency, LLC from the agreement.
5. Type: Claims Management Agreement
- Affiliate: PCI
- Effective: September 1, 1990
- Terms: PCI provides claims management and adjusting services to Traders. Fees for loss adjusting expenses are to be determined based on the time and expenses allocated to each claim file for adjustment services per a fee schedule contained in the agreement. *The fees section of this agreement is currently inactive as the fees associated with the agreement are determined under the provisions of the Expense Sharing Agreement described in item # 4 above.*
6. Type: Promissory Note
- Affiliate: TICI
- Effective: April 16, 1992
- Terms: The original note was for \$920,524 with interest to be paid at a rate of 9.5% per annum computed on the unpaid principal balance. Monthly payments of \$11,700 were required for the first five years and increased to \$21,719 for the final two years of the note. Any remaining unpaid principal balance and accrued interest was to be paid in full by of April 1, 1999. The note was amended effective April 1, 1994 to reduce the interest rate to 6.5% and extend the term of the payments. The monthly payments under the amendment were decreased to \$5,090 and are to continue until the loan is paid in full. The unpaid principal amount of the note, which amounted to \$651,827 as of December 31, 2005, has been non-admitted by the Company. On October 16, 2008 TGA obtained 100% control of the Company from Traders Insurance Connection, Inc., at which time the note was determined to be uncollectible. The note was then written off as a realized capital loss of \$593,783, accordingly this note agreement has effectively terminated.

The amounts (paid) to and received from parents and affiliates during the period under examination are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Management Agreement *	\$ (4,351,000)	\$(4,558,194)	\$(4,657,180)
Paid to TGA and TICI			
Expense Sharing Agreement	(2,128,628)	(2,184,417)	(1,643,958)
Paid to TGA & PCI			
Tax Sharing Agreement	456,528	271,107	(17,094)
Lease Agreement	(58,500)	(58,500)	(58,500)
Paid to TGA & TICI			
Promissory Note	<u>50,900</u>	<u>61,080</u>	<u>0</u>
Net Amount (paid) or received	<u>(\$6,030,680)</u>	<u>(\$6,468,924)</u>	<u>(\$6,376,732)</u>

* TICI assigned all of its assets, contract rights and interests to TGA effective October 16, 2008 in conjunction with the transfer of ownership of Traders to TGA in partial satisfaction of Brooke Corporation's indebtedness.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2008, Traders is a named-insured on a standard financial institution bond providing fidelity coverage, purchased through its parent, TGA. The financial institution bond has a liability limit of \$300,000 and a deductible of \$15,000. This level of coverage is sufficient to meet the suggested minimum amount of fidelity insurance coverage according to NAIC guidelines.

Traders is also a named-insured on the following insurance policies purchased by its parent: Business Owner's Liability, Errors and Omission Liability, Commercial Automobile, Excess Indemnity, Worker's Compensation Liability and Directors and Officers Liability

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Traders Insurance Company employees are paid by, and receive benefits from, the Company's direct parent, TGA, in accordance with the Management and Expense Sharing Agreements discussed in detail in the Intercompany Transactions section of this report. TGA maintains a 401(K) plan for substantially all employees and provides a variety of other benefits which include, but are not limited to, medical insurance, dental insurance, vision insurance, life insurance, short-term and long-term disability coverage, cancer insurance, Section 125 Flexible Spending Accounts and Health Savings Accounts.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Traders Insurance Company is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) under Chapter 379 RSMo (Insurance Other than Life) to write the business of property and casualty insurance. As of December 31, 2008, the Company was also licensed in the states of Arkansas, Arizona, Florida, Indiana, Iowa, Kentucky, Kansas, Nebraska, New Mexico, Oklahoma, and Wisconsin. The Company became licensed in the states of Arkansas, Kentucky, and Wisconsin on February 28, 2006, February 20, 2006, and September 5, 2008, respectively during the period under examination.

In 1993, the Company was restricted from writing new business in Iowa until the Company met Iowa's minimum capital and surplus requirement of \$5 million. This restriction is currently in effect, as the Company's capital and surplus has not reached Iowa's threshold minimum capital and surplus requirement.

The Company writes private passenger automobile liability and property damage coverage. Automobile liability coverage represents 82% of direct written premiums in 2008 with the remaining 18% consisting of property damage.

The Company markets its business through 753 independent agents and brokers. The Company's immediate parent, Traders General Agency, Inc. ("TGA") is contracted to provide marketing and premium processing services. TGA contracts with and supervises third-party independent agents on behalf of the Company.

Company Growth

The Company reported a Risk-based Capital (RBC) ratio of 302.7% at year-end 2008, a decrease from 344.2% at year-end 2007. The Company also reported a decrease in capital and surplus of \$344,000 or 7.9% from \$4.4 million as of year-end 2007 to \$4 million as of year-end 2008, which is still greater than the minimum required of \$1.2 million capital and \$1.2 million surplus. Gross Premium Written to surplus decreased from 379.9% at year-end 2007 to 371% at year-end 2008 while Net Premium Written to surplus decreased from 265.9% at year-end 2007 to 259.7% at year-end 2008. The Company showed a net underwriting loss of \$428,000 and a net loss of \$693,000 for 2008.

Loss Experience

Traders reported underwriting losses in each of the past four calendar years, and posted net losses in each of the past three years. At year-end 2008, the Company showed a net underwriting loss of \$428,000 and a net loss of \$693,000. The underwriting losses are in large part due to a high expense structure. In an effort to improve underwriting results, the Company filed rate increases in several states over the past few years, and renegotiated the terms of its

management contract with a related party, in order to provide a sliding scale commission structure tied to the Company's direct loss ratio. These actions appear to be having a positive impact as the underwriting losses declined from \$1.8 million in 2006 to \$428,000 for 2008.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Direct Business	\$14,881,369	\$16,544,351	\$14,882,449
Reinsurance Assumed	0	0	0
Reinsurance Ceded	(4,464,411)	(4,963,306)	(4,464,735)
Net Written Premiums	<u>\$10,416,958</u>	<u>\$11,581,045</u>	<u>\$10,417,714</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company's ceded reinsurance program is conducted entirely with Dorinco Reinsurance Company (Dorinco), Midland, Michigan under one reinsurance agreement as described below. Dorinco is an authorized reinsurer in the State of Missouri.

Effective June 1, 2004, the Company executed a private passenger automobile quota share reinsurance contract with Dorinco. The agreement remains in effect until terminated. Under this agreement, the Company cedes 30% of the liability on all business written to Dorinco, subject to the reinsurer's retention. For purposes of determining the liability of the reinsurer, the limits of liability of the Company with respect to any one policy shall be deemed not to exceed the following limitations.

<u>Coverage</u>	<u>Limits</u>
Automobile Physical Damage	\$35,000 each vehicle
Automobile Bodily Injury Liability	\$25,000 each person/

Property Damage Liability	\$50,000 each Loss Occurrence
Uninsured/Underinsured Motorists Coverage	\$25,000 each Loss Occurrence
	\$25,000 each person/
Personal Injury Protection	\$50,000 each Loss Occurrence
Medical Payments	Minimum Statutory Limit
Uninsured Motorist Property Damage	\$2,000
	Minimum Statutory Limit

Coverage relating to Extra Contractual Obligations and/or Loss in Excess of Original Policy limits shall not exceed \$300,000 per loss occurrence.

The agreement provides for the Company to receive a provisional ceding commission equal to 27% of premiums earned plus 100% of all policy fees. This provisional commission is subject to adjustment depending on the actual loss ratio of the business ceded for each underwriting year.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2008, as reflected below, were sufficient to meet the capital deposit requirement for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The funds on deposit as of December 31, 2008, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. T-Notes	\$1,594,000	\$1,756,495	\$1,628,932

Deposits with Other States

The Company also has funds on deposit with other various other states and jurisdictions in which it is licensed. Those funds on deposit as of December 31, 2007, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
New Mexico	U.S Bonds	\$325,000	\$361,730	\$332,675
Florida	Various Securities	\$975,000	\$999,716	\$992,712
TOTALS		<u>\$1,300,000</u>	<u>\$1,361,446</u>	<u>\$1,325,387</u>

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the year ending December 31, 2006, 2007 and 2008 were audited by the CPA firm of Johnson Lambert & Company, Charleston, South Carolina.

Appointed Actuary

Loss reserves of the Company were reviewed and certified by Thomas F. Head, ACAS, MAAA, of Professional Actuarial Services, Inc., Fort Worth, Texas for each of the years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Traders for the period ending December 31, 2008. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$5,419,520	\$0	\$5,419,520
Common Stocks	443,700		443,700
Cash and Short-term Investments	3,816,531		3,816,531
Investment Income Due and Accrued	47,738		47,738
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	2,576,473		2,576,473
Amounts Recoverable from Reinsurers	227,000		227,000
Current and Federal Income Tax Recoverable	36,646		36,646
Net Deferred Tax Asset	592,607	369,019	223,588
Guaranty Funds Receivable or on Deposit	8,188		8,188
Aggregate Write-ins for Assets:			
Miscellaneous Prepaids	75,930	75,930	0
Miscellaneous Receivable	13,500		13,500
Premium Tax Receivable	<u>79,696</u>	<u>0</u>	<u>79,696</u>
TOTAL ASSETS	<u>\$13,337,529</u>	<u>\$444,949</u>	<u>\$12,892,580</u>

Liabilities, Surplus and Other Funds

Losses	\$ 3,095,538
Loss Adjustment Expenses	1,239,275
Other Expenses	66,708
Taxes, Licenses and Fees	55,003
Unearned Premiums	2,480,374
Advance Premium	15,348
Ceded Reinsurance Premiums Payable	1,114,541
Payable to Parent, Subsidiaries and Affiliates	762,763
Aggregate Write-In Liabilities:	
Escheat Property Payable	<u>51,567</u>
TOTAL LIABILITIES	\$8,881,117
Common Capital Stock	805,000
Preferred Capital Stock	400,000
Gross Paid In and Contributed Surplus	4,406,011
Unassigned Funds (Surplus)	<u>(1,599,547)</u>
Capital and Surplus	<u>\$4,011,464</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$12,892,581</u>

Summary of Operations

Underwriting Income

Premiums Earned	\$10,089,107
Losses Incurred	5,283,917
Loss Adjustment Expenses Incurred	942,980
Other Underwriting Expenses Incurred	<u>4,290,582</u>
Total Underwriting Deductions	<u>\$10,517,479</u>
Net Underwriting Gain/(Loss)	<u>(\$428,372)</u>

Investment Income

Net Investment Income Earned	270,108
Net Realized Capital Gains or (Losses)	<u>(474,881)</u>
Net Investment Gain or (Loss)	<u>(\$204,773)</u>

Other Income

Finance and Service Charges	66,962
Miscellaneous Other Income	<u>11,889</u>
Total Other Income	<u>\$78,851</u>
Net Income Before Dividends to Policyholders and Federal Income Taxes	(\$554,294)
Federal and Foreign Income Taxes Incurred	<u>138,927</u>
Net Income or (Loss)	<u>(\$693,221)</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2007	\$4,355,427
Net Income or (Loss)	(693,221)
Change in Net Unrealized Capital Gains or (Losses)	(120,325)
Change in Net Deferred Income Tax	29,452
Change in Non-admitted Assets	<u>440,131</u>
Net Change in Capital and Surplus	<u>(\$343,963)</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2008	<u>\$4,011,464</u>

CHANGES IN FINANCIAL STATEMENTS RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENTS

None

SUMMARY OF RECOMMENDATIONS

Board of Directors (Page 6)

Three members of the Board of Directors resigned or were not re-elected effective April 9, 2009, during the annual meeting of the Board of Directors and have not been replaced. This development has reduced the number of directors on the Board to six, which is below the statutory minimum of nine directors as required by Section 379.520 (5), RSMo (Contents of articles of incorporation). The Company is directed to appoint additional members to its Board of Directors to comply with this applicable law.

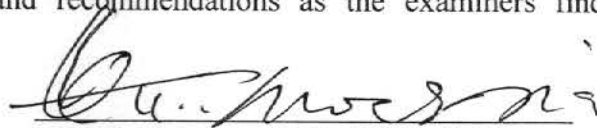
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Traders Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Karen Baldree, CPA, CFE and Valerie Hastings, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Timothy Carroll, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Glenn Tobleman, FSA, MAAA of Lewis & Ellis, Inc. also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
 County of)

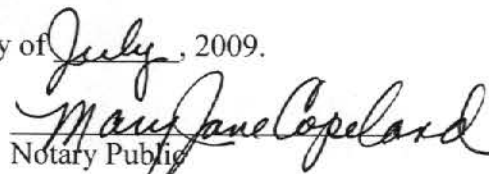
I, Levi N. Nwasoria, CPA, MSA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


 Levi N. Nwasoria, CPA, MSA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance, Financial
 Institutions and Professional Registration

Sworn to and subscribed before me this 22nd day of July, 2009.

My commission expires




 Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark Nance, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration